

# Pegasus Capital Advisors, L.P.

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Pegasus Capital Advisors, L.P. and its affiliated entities (collectively “Pegasus”). If you have any questions about the contents of this brochure, please contact Anne Frank-Shapiro at 212 710 2529 or [afrank-shapiro@pcalp.com](mailto:afrank-shapiro@pcalp.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Pegasus is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Pegasus Capital Advisors, L.P. is registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Recipients of this brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.

## **Item 2. Material Changes**

Pegasus Capital Advisors, L.P. filed its most recent Form ADV Part 2A on May 19, 2016. This amendment reflects updated assets under management after finalizing all fund audits for 2015.

## **Item 3. Table of Contents**

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## **Item 4. Advisory Business**

Pegasus Capital Advisors, L.P. is an independent private equity manager founded by Craig Cogut in 1996 and organized under the laws of the State of Delaware as a limited partnership. Pegasus Capital Advisors GP, LLC is the general partner of Pegasus. Pegasus is led by Mr. Cogut together with Mr. Eric Gribetz, Mr. Richard Davis and Mr. Alec Machiels (collectively the “Investment Committee”), who collectively bring a wealth of investment, operational and financial expertise and experience to Pegasus Capital Advisors, L.P. and its affiliates. Mr. Cogut is the principal owner of Pegasus.

Pegasus serves as an investment manager and provides advisory services to several related collective investment vehicles, including private investment partnerships, foreign investment companies and operating companies, together with any respective parallel funds, special purpose and/or subsidiary investment vehicles (each a “Fund” or collectively the “Funds”).

The Funds are/were organized to invest primarily in middle-market companies that are advantaged by global trends across a variety of industries. Utilizing debt or equity securities, the Funds have/will pursue(d) investments in both private and public securities that Pegasus believes involve (i) companies with proven business models that require uniquely structured financing to support varying strategic initiatives, (ii) companies or assets that are undervalued due to discrete events, (iii) companies that are undergoing restructurings or are in financial distress or (iv) companies offering or poised to offer resource efficient business solutions. The Funds have or will target investments primarily in the United States, Canada, Central America and the Caribbean, in markets where they have significant expertise, including but not limited to energy, natural resources, waste management/recycling, building materials, food, water, transportation, logistics and consumer products.

As of December 31, 2015, Pegasus managed approximately \$1.7 billion assets on a discretionary basis on behalf of the Funds.

Pegasus employs a flexible investment strategy that emphasizes appropriate positioning in the target company’s capital structure to minimize risk and maximize potential return. Pegasus will evaluate both the potential investment’s business, as well as the industry in which it competes, working closely with its team of operational advisory partners (the “Operating Advisors”) and senior strategic advisors (the “Strategic Advisors”). Operating Advisors and Strategic Advisors are independent contractors who are industry experts in the various operating sectors in which Pegasus invests on behalf its clients. They may suggest opportunities in certain sectors to Pegasus and may be called upon to generate, evaluate, execute and manage activities of the operating companies. Operating Advisors and Strategic Advisors do not make any investment decisions.

Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and the Funds are not registered under the U.S. Investment Company Act of 1940, as amended. Accordingly, interests or shares in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

In providing investment management and advisory services to the Funds, Pegasus formulates each Fund's investment objectives, directs and manages the investment and reinvestment of assets, and provides reports to investors. Each Fund structure may vary, but typically the Funds, or portions of them, are structured as limited partnerships, each with a general partner ("General Partners") that is an affiliate of Pegasus Capital Advisors, L.P. Investment advice is provided directly to the Funds and not individually to the investors of the Funds (the "Investors" or "Limited Partners"). Pegasus manages the assets of the Funds in accordance with the terms of each Fund's confidential offering and/or private placement memorandum, individual limited partnership or operating agreement and other governing documents applicable to each Fund (the "Governing Fund Documents").

In supporting the portfolio companies of the Funds, Pegasus simultaneously promotes from time to time portfolio companies held in different Funds to the extent they are complimentary. Pegasus also includes, from time to time, in its marketing efforts companies in which the Funds have no interest, some of which may be affiliates of persons associated Pegasus (see Item 10 for additional information). Pegasus generally will involve such companies in its promotional efforts to the extent they, as part of a package of solutions, make the Funds' portfolio companies more attractive.

Pegasus also provides consulting services to Impala Energy Holdings Ltd., a Cayman Islands exempted company which focuses on investments in Sub-Saharan Africa clean and renewable power projects. As part of the consulting services, Pegasus participates in board meetings of the company and provides input and advice with respect to such matters as the company reasonably requests from time to time.

Additionally, from time to time and as permitted by the relevant limited partnership agreement or other governing documents of a Fund, Pegasus expects to provide (or agree to provide) co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Pegasus' personnel and/or certain other persons associated with Pegasus. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment.

## **Item 5. Fees and Compensation**

Pegasus receives compensation from fees based on a percentage of assets under management, carried interest allocations and certain other fees ("Portfolio Company Fees") related to transactions, consulting, advisory and other similar fees associated with investments or proposed investments or commitments made by each Fund, fees in connection with transactions that are not completed (i.e., break-up fees) and directors' fees (which may include options and warrants) and/or monitoring fees from portfolio companies. Clients are billed by Pegasus for fees incurred.

### *Management Fees*

Pegasus receives an investment management fee (the "Management Fee") quarterly in advance from its Funds. The Management Fee is calculated during the commitment period of the Funds on total capital commitments of the Limited Partners and after the commitment period of the Funds on actively invested capital as of the last business day of the prior calendar quarter. The Funds are generally charged a Management Fee (which is borne by Limited Partners) of 1.25% to 2.00%

depending upon the stage of the vehicle. Certain Investors receive preferential rates related to the size and timing of their commitments to the Funds. If the investment management agreement is terminated before the end of a quarter then a pro-rata portion of the management fees will be returned to clients.

Pegasus contracts with Operating Advisors, Strategic Advisors and consultants and negotiates to pay them a set fee. In the course of the performance of their services, they may contract directly with a portfolio company to provide consulting services, the fees for which generally offset the fees Pegasus is obligated to pay such Operating Advisors, Strategic Advisors and consultants. Operating Advisors, Strategic Advisors and consultants also bill consulting fees as expenses to the Funds, which are used to reimburse Pegasus for the related fees it paid directly to the Operating Advisor, the Strategic Advisor or the consultant in respect of such work. Fees paid to Operating Advisors, Strategic Advisors and consultants from portfolio companies for providing services may reduce the profitability of the investment to the extent that the services performed are unsuccessful.

#### *Carried Interest Allocations*

Carried interest is a share of the net profits realized on the disposition of investments that is paid to each Fund's General Partner. The General Partner's carried interest allocation is in addition to any investment that the General Partner has in the relevant Fund.

In order to receive its 20% carried interest allocation, Pegasus must first return all capital contributed by the Investors, plus an 8.00% cumulative internal rate of return, calculated and distributed on an investment-by-investment basis in accordance with the specific provisions outlined in each Fund's Governing Fund Documents.

#### *Profit Interest to Operating Advisors, Strategic Advisors or Consultants*

Pegasus' Operating Advisors, Strategic Advisors, or consultants may, from time to time, be issued a profit interest in portfolio companies depending on their respective level of involvement in the portfolio companies. Such profit interest would be issued to an Operating Advisor, Strategic Advisor or consultant in addition to the General Partner's carried interest, which reduces the returns to Investors. Such profit interests reduce the amount of profit payable to the applicable Fund upon exiting its investment in the portfolio company in which such profits interests were generated.

#### *Other Expenses*

Pegasus pays all of its own ordinary administrative and overhead expenses in managing the Funds, including salaries, benefits and rent. The Funds and their portfolio companies pay certain other expenses attributable to their activities, including but not limited to, fees, transportation, meals, costs and expenses related to the diligence, purchase and sale of investments; expenses for custodians, outside counsel, accountants, Operating Advisors, Strategic Advisors and consultants; any insurance (including any premiums) or litigation expenses; and any taxes, fees or other governmental charges levied against the Funds. Organization and syndication costs will be paid by the Funds or reimbursed to Pegasus up to a specified amount, as noted in the Governing Fund Documents.

From time to time, Pegasus incurs expenses on behalf of two or more Funds and their respective portfolio companies (including without limitation legal expenses for a transaction in which all such Funds and/or portfolio companies participate, or other fees or expenses in connection with services the benefit of which are received by other Funds over time). To the extent such expenses are incurred for the account or benefit of more than one Client, each Client will typically bear an allocable portion of any such expenses in proportion to the size of its investment in the activity or entity to which the expense relates (subject to the terms of each Client's Governing Fund Documents) or in such other manner as Pegasus considers fair and equitable under the circumstances.

In addition, from time to time, a Fund will incur expenses on behalf of a portfolio company, generally in circumstances in which Pegasus determines that the portfolio company faces difficulty in paying such expenses on a current basis. The Funds will carry such expenses, as an account receivable, on behalf of certain portfolio companies with the expectation that such portfolio companies will be able to reimburse the Funds in the future. If it is determined in the future that the portfolio companies cannot reimburse the Funds, then the Funds will expense the receivable on its income statement at that time.

Pegasus generally has discretion over whether to charge Portfolio Company Fees and, if so, the rate, timing and/or amount of such compensation. The receipt of such compensation generally will give rise to potential conflicts of interest between the Funds, on the one hand, and Pegasus on the other hand.

Additionally, as further described herein, it is Pegasus' practice to retain certain Operating Advisors, Strategic Advisors and consultants to provide services to (or with respect to) one or more Funds or certain current or prospective portfolio companies in which one or more Funds invest. Such Operating Advisors, Strategic Advisors and consultants generally provide services in relation to the identification, acquisition, holding, improvement and disposition of portfolio companies, including operational aspects of such companies. These services may also include serving in management or policy-making positions for portfolio companies. Operating Advisors, Strategic Advisors and consultants receive compensation, including, but not limited to Portfolio Company Fees, profits or equity interests in one or more Funds or their general partners, or other compensation, which typically are determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of such Operating Advisors, Strategic Advisors and consultants, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. No such compensation will offset the Management Fee.

Detailed information regarding the fees charged to the Funds is provided in the Governing Fund Documents. Investors should review all fees charged by Pegasus to fully understand the total amount of fees to be paid by the Funds and, indirectly, their Limited Partners. The terms of the Governing Fund Documents are generally established at the time of the formation of the applicable Fund.

## **Item 6. Performance Based Fees and Side-by-Side Management**

As described above, Pegasus or its affiliates receive “carried interest” calculated based on the profits generated on the sale/disposition of each Fund’s assets. Historically, the majority of the senior investment professionals involved in the management of the Funds received a share of the carried interest, which is calculated on an investment-by-investment basis with a clawback feature on an aggregate basis. A segregated reserve account is also established to escrow a percentage of any carry distributions made to the General Partner in accordance with the Governing Fund Documents for each of the Funds.

The existence of this carried interest may create an incentive for Pegasus to make riskier or more speculative investments on behalf of the Funds than they might otherwise make in the absence of such performance-based compensation. In addition, the terms applicable to carried interest distributions could incentivize Pegasus to make decisions regarding the timing and structure of realizations of portfolio companies that may not be in the best interests of the Funds. For example, carried interest distributions become payable earlier if profitable investments are liquidated before unprofitable investments because such a waterfall does not permit any distributions of carried interest until after the cumulative amount of distributions has covered any prior losses associated with unprofitable investments.

### *Co-Investment*

Pegasus may, from time to time, seek co-investors in connection with the consummation of an investment. Where appropriate, and where obligated pursuant to side letter provisions, Pegasus will provide co-investment opportunities to certain Investors. In addition, Pegasus may seek third party co-investors who have industry sector experience or other attributes that Pegasus believes, in its sole discretion, will enhance the investment. These co-investment opportunities will be offered as interests in a limited partnership or other similar entity formed for each investment (a “Co-Investment Entity”). Pegasus may (or may not) in its discretion: (i) charge carried interest, Management Fees or other similar fees to co-investors and Pegasus may make an investment, or otherwise participate, in any vehicle formed to structure a co-investment to facilitate, among other things, receipt of such carried interest, Management Fees or other similar fees; and (ii) collect Portfolio Company Fees in connection with actual or contemplated portfolio investments that are the subject of such co-investment arrangements. Subject to provisions contained in side letters entered into with Investors at the time of their commitment to a Fund, Pegasus will allocate the available investment among the Funds, the Co-Investment Entity and any third parties as it may in its sole discretion determine.

### *Alternative Investment Vehicles*

In connection with any investment, Pegasus, subject to certain limited conditions, will have the right to direct the capital contributions of some or all of the Limited Partners to be effected through one or more alternative investment vehicles if, in the determination of Pegasus, the use of such vehicles would allow the Funds to overcome legal and regulatory constraints, be more tax efficient and/or facilitate participation in certain types of investments. Any such vehicles will contain terms and conditions substantially identical in all material respects to those of the Funds and will be managed by Pegasus or an affiliate thereof. The profits and losses of such vehicles will be aggregated with those of the Funds for purposes of determining distributions by the Funds and such vehicles.



### *Common Investments*

From time to time, certain Funds and/or Pegasus Capital LLC or its subsidiaries have invested and may in the future invest in the same portfolio company, at different times and at different levels of the company's capital structure. Subject to restrictions set forth in the Governing Fund Documents, Pegasus allocates investments among the Funds on a basis that Pegasus determines in good faith to be appropriate, taking into account such factors as the Funds' respective investment policies and strategies, their investment limitations, their geographic focus and the relative amounts of capital available for investments. In the event that a potential investment could equally be allocated to one or more investment vehicles or mandates, the decision as to which investment vehicle such investment will be made by Pegasus in good faith.

## **Item 7. Types of Clients**

Pegasus provides discretionary advisory services to the Funds, as described in this brochure. Each Fund operates as a pooled investment vehicle. Investment advice is provided directly to the Funds, subject to the direction and control of the General Partner of each Fund and not individually to the Limited Partners. Investors in the Funds may include, but are not limited to, pension funds, endowments, corporations, fund of funds, and high net worth individuals. Pegasus identifies the target amount for each Fund in the relevant offering document, but it may accept a lesser amount in its discretion.

In addition, the Funds may enter into separate agreements, commonly referred to as "side letters", with certain Investors, to waive certain terms, or allow such Investors to invest on different terms than those specifically described in the offering documents. Under certain circumstances, these agreements could create preferences or priorities for such Investors with respect to other Limited Partners.

Investors are required to meet certain suitability qualifications, such as being an "accredited investor" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act. Also, Investors will be required to make certain representations when investing in a Fund, including, but not limited to that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment and (iii) they have the ability to bear the economic risk of an investment in the Funds. Details concerning applicable Investor suitability criteria are set forth in the respective Funds' Governing Fund Documents, which are furnished to each Investor.

Pegasus also provides consulting services to Impala Energy Holdings Ltd., an operating company, as described in this brochure.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Pegasus employs a value oriented investment strategy in the middle market where conservative pricing, innovative structuring and optionality that are intended to protect principal while allowing the Funds to generate equity returns. With a focus on resources, Pegasus maintains six key tenets in

its investment approach: creating fundamental value, emphasis on knowledge, targeted industries, downside risk mitigation, low leverage and proprietary deal sourcing. The firm's knowledge and proven experience in handling complex, structured transactions positions the Funds to take advantage of distressed opportunities that may arise.

Pegasus takes an active role in the oversight of portfolio companies following the completion of an investment, primarily through direct board representation or occasionally via board observation rights. Pegasus typically holds numerous board seats for each of its private equity investments. Regardless of its equity ownership position, the firm generally structures investments to allow it to exert significant influence over the direction and management of the relevant businesses, obtaining negative and affirmative control features that often allow the applicable General Partner to replace management, approve budgets, approve asset sales and dictate the realization of investments.

Holding periods for private equity investments will vary depending on the nature of the investment, the terms of the security and market conditions. Pegasus conducts a detailed hold/sell analysis, when appropriate, for a portfolio company incorporating a variety of factors to determine whether to hold or sell a particular portfolio company.

To mitigate operational risk, the Funds monitor and interact with management teams closely and employ the skills of Operating Advisors, Strategic Advisors and consultants to best address potential market risks or organizational weaknesses. However, economic, industrial and capital market risks and uncertainties exist today and remain outside of Pegasus' control. In some instances, these conditions may create investment opportunities given Pegasus' stated strategy.

An investment in the Funds involves significant risks due to the uncertainty inherent when investing in companies at significant points of stress. There can be no guaranty that any Fund will achieve its investment objectives. Before purchasing interests, prospective Investors are presented with a summary of certain of the risks of investing in the Funds, including those set forth below. Additional risk factors and descriptions of certain conflicts of interest are set forth in the Governing Fund Documents. The descriptions contained below are a brief overview of different market risks related to Pegasus' investment strategy; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operations of the Funds.

## **Investment Risks**

*Nature of investments.* The Funds may invest in equity and debt securities that have significant risks as a result of business, financial, market or legal uncertainties surrounding the issuing companies. There can be no assurance that Pegasus will correctly evaluate the nature and magnitude of the various factors that could affect the value of the Funds' investments. A variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Funds' activities and the value of the Funds' investments. In addition, the Funds may not seek or obtain controlling positions in its portfolio companies, which may decrease the Funds' profit potential with regard to that portfolio company. The debt securities in which the Funds may invest could be unsecured and subordinated to senior indebtedness, all or a significant portion of which may be secured. In addition, these securities may have limited liquidity. Debt securities are also subject to other creditor risks, including (i) the

possible invalidation of an investment transaction as a “fraudulent conveyance” under relevant creditor’s rights laws; (ii) so-called lender liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) equitable subordination.

*Difficulty of Locating Suitable Investments.* There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Funds to invest all of their respective committed capital in opportunities that satisfy the Funds’ investment objectives or that such investment opportunities will lead to completed investments by the Funds. The process of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty, especially with regard to timing. The Funds will compete for the acquisition of investments with many other investors, some of which will have greater resources than the Funds. Such competitors may include other private investment funds as well as individuals, strategic purchasers, financial institutions and other institutional investors. In addition, the availability of investment opportunities is subject to market conditions as well as, in some cases, the prevailing regulatory or political climate.

*Global Financial Markets.* In light of the economic downturn and the overall weakening of the financial services industry which followed the financial crisis of 2008, the Funds and their respective portfolio companies may be adversely affected and they may become subject to legal, regulatory, reputational and other unforeseen risks which could have a material adverse effect on the Funds’ returns. In addition, market conditions may substantially reduce the availability of credit, which may have a material adverse effect on the Funds’ portfolio companies and consequently on the value of the Funds’ investments.

*Financial Market Fluctuations.* The Funds may invest in securities of publicly traded companies and fluctuations in the market prices of such securities may negatively affect the value of such investments. In addition, general instability in the public debt market and other securities markets may impede the ability of portfolio companies to refinance their debt through selling new securities, thereby limiting the Funds’ exit options with regard to a particular portfolio company.

*Portfolio Concentration.* The ability of the Funds to diversify their respective investments will depend upon the ultimate size of the Funds relative to the size of the available investment opportunities. Although the Governing Fund Documents generally limit a Fund’s ability to invest more than 20% of aggregate commitments in any one portfolio company, the General Partners will have sole discretion within such limitation to select investments for the Funds or the advisory boards may consent to waive such provision. The Funds have and expect to make multiple investments in diverse industries, but unforeseen circumstances may cause them to limit the number of their respective investments. In such case, poor performance by one or more of its investments could severely adversely affect a Fund’s total returns and profitability.

*Illiquidity of Investments.* An investment in the Funds requires a long-term commitment with no certainty of return. It is unlikely that there will be significant near-term cash flow available to the Investors. Many of the Funds’ investments will be or are highly illiquid, and there can be no assurance that the Funds will be able to realize such investments at attractive prices or otherwise be able to effect a successful realization or exit strategy. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in-kind to the Investors.

Additionally, the Funds may acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act, or in accordance with Rule 144 promulgated under the Securities Act. There can be no assurance that private purchasers can be found for the Funds' investments. Finally, in some cases, the Funds may be prohibited by contract from selling securities for a period of time.

*Risks of Certain Control Investments.* In connection with the disposition of an investment in a portfolio company, the Funds may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. They may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate or misleading. These arrangements may result in contingent liabilities that may ultimately have to be funded by the Investors to the extent that the Investors have received prior distributions from the Funds.

*Forward-Looking Statements.* Targeted returns and forward-looking statements reflect the General Partners' views with respect to future events. Actual returns and results could differ materially from those in the targeted returns and forward-looking statements. Investors are cautioned not to place undue reliance on such returns and statements.

*Non-Control Investments.* The Funds may hold certain non-controlling interests in companies and the General Partners expect that certain of their rights will be limited as compared to rights granted to controlling stockholders. Therefore, the Funds' ability to protect their respective positions in such companies may be inhibited.

The Funds may also co-invest with third parties through joint ventures or other entities. Such investments may involve additional risks, including the possibility that a third-party co-venturer may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the Funds, or may be in a position to take (or block) action in a manner contrary to the investment objectives of the Funds. In addition, the Funds may in certain circumstances be liable for the actions of its third-party co-venturers. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation.

*Risks Associated with Foreign Investments.* Although the Funds intend to invest primarily in U.S. securities, the Funds may also invest in non-U.S. companies. Investing outside the United States may involve substantially greater risks than investing in the United States. In particular, the value of the Funds' investments in non-U.S. companies may be significantly affected by changes in currency exchange rates. Although the General Partners may attempt to hedge against foreign currency exchange rate risks related to a portfolio investment by utilizing spot and forward exchange contracts, foreign currency options or other instruments, there can be no assurance that the General Partners will be able to do so successfully or cost effectively, and the General Partners may decide not to hedge against such risks or to do so incompletely. Additional risks of investing outside the United States may include (i) economic dislocations in the host country; (ii) less publicly available information; (iii) less developed standards and regulatory institutions; and (iv) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Additionally, in some countries, there is the possibility of expropriation of value (including through confiscatory taxation, limitations on the repatriation or sale of securities, property or other assets), political or social instability and

diplomatic developments, each of which could have an adverse effect on the Funds' investments in such countries. While the General Partners will take these potential factors into consideration in making investment decisions for the Funds, these risks are inherently difficult to quantify and no assurance can be given that the General Partners will be able to evaluate these risk successfully.

*Leverage.* The Funds may use credit lines for the purpose of short-term financing related to the following: (i) investments, (ii) expenses, (iii) shortfalls of capital contributions arising from the default of Investors, or (iv) other purposes related to the Funds' business. The credit lines are guaranteed by the commitments of the Investors in the specific Funds. Any outstanding balances on credit lines are expected to be short-term in nature and be paid down when the Funds issue a call notice to their Investors.

## **Management Risks**

*Reliance on Key Personnel.* The success of the Funds will be highly dependent on the financial and managerial expertise of the Investment Committee and the other Pegasus investment professionals. Investors will have no control with respect to the day-to-day operations of the Funds and must rely on the Investment Committee's ability to identify and consummate investments suitable for the Funds, properly guide and manage the portfolio companies in which the Funds have invested and determine the appropriate time and terms upon which to exit the investments. There can be no assurance that the members of the Investment Committee will continue to be associated with Pegasus as the members of the Investment Committee are under no contractual obligation to remain with Pegasus. The loss of the services of one or more of the Investment Committee members could have an adverse impact on the ability of the Funds' to realize their investment objectives.

*Material, Non-Public Information.* By reason of their responsibilities in connection with other activities of Pegasus, certain employees of the General Partners and their affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Funds will not be free to act upon any such information. Due to these restrictions, the Funds may not be able to initiate a transaction that they otherwise might have initiated and may not be able to sell an investment that they otherwise might have sold.

*Provision of Managerial Assistance.* The Funds may obtain rights to participate in and to influence the conduct of the management of their respective portfolio companies. The Funds may designate directors to serve on the boards of directors of their respective portfolio companies, and the designation of directors and exercise of other management rights could expose the assets of the Funds to claims by a company, its security holders or its creditors. The exercise of control over a company imposes additional risks of liability for environment damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability. If these liabilities were to occur, the Funds could suffer significant losses in their investments. While the General Partners intend to manage the Funds in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

*Reliance on Portfolio Company Management.* Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although the General Partners will be responsible for monitoring the performance of each investment and generally intends to invest in companies operated by strong management, there can be no assurance that the existing management

teams, or any successors, will be able to successfully operate portfolio companies in accordance with the Funds' plans.

*Risks in Effecting Operating Improvements.* In some cases, the success of a Fund's investment strategy will depend, in part, on its ability to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the Funds will be able to successfully identify and implement such restructuring programs and improvements.

*Litigation.* The transactional nature of the business of Pegasus and the Funds exposes the Funds, the General Partners, and Pegasus generally to risks of third party litigation. Pegasus and related persons have been and are subject to such litigation. Under the Governing Fund Documents, the Funds generally will be responsible for indemnifying the General Partners and Pegasus and related persons for costs they may incur with respect to such litigation to the extent not covered by insurance.

### **Conflicts of Interest**

Pegasus and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other Funds, and providing transaction-related, legal, management and other services to Funds and portfolio companies. Pegasus will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Fund Documents, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Pegasus conducting its activities, the interests of a Fund may conflict with the interests of Pegasus, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, Pegasus will determine all matters relating to structuring transactions and Fund operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory boards of the participating Funds.

During the commitment period of a Fund, all appropriate investment opportunities will be pursued by Pegasus principals through such Fund, subject to certain limited exceptions. Without limitation, Pegasus principals currently manage, and expect in the future to manage, several other investments similar to those in which a Fund will be investing, and may direct certain relevant investment opportunities to those investments. Pegasus' principals and Pegasus' Investment Committee will continue to manage and monitor such investments until their realization. Such other investments that Pegasus principals may control or manage may potentially compete with companies acquired by a Fund. Following the commitment period of a Fund, Pegasus principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Fund's investments.

Pegasus generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Governing Fund Documents, investment objectives, strategies, life-cycle and structure. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. Pegasus will determine if the amount of an

investment opportunity in which a Fund will invest exceeds the amount that would be appropriate for such Fund and any such excess may be offered to one or more potential co-investors, as determined by the Funds' Governing Fund Documents, Side Letters and Pegasus' procedures regarding allocation.

As a result of the Funds' controlling interests in portfolio companies, Pegasus typically has the right to appoint portfolio company board members, or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Pegasus. Any amount above any applicable offset as provided in the Governing Fund Documents will be in addition to any Management Fees or carried interest paid by a Fund to Pegasus.

Additionally, a portfolio company will reimburse Pegasus or service providers retained at Pegasus' discretion for expenses (including without limitation travel expenses) incurred by Pegasus or such service providers in connection with its performance of services for such portfolio company. This subjects Pegasus to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Pegasus determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, any fee paid or expense reimbursed to Pegasus or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

Pegasus generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with (i) Pegasus or a related person of Pegasus (which may include a portfolio company of such Fund), or (ii) certain limited partners or their affiliates. For example, Pegasus may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This subjects Pegasus to conflicts of interest, because although Pegasus selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, Pegasus may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that Pegasus, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Pegasus), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Pegasus has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost. In addition, portfolio companies of the Funds offer Pegasus and its related persons products and services at a discounted price or on better terms that would not be offered to a third party in an arm's length transaction. Such discounts will not be subject to a Management Fee offset.

Personnel and related persons of Pegasus have, and are expected to continue to have, a capital

investment in a portfolio company alongside certain Funds, directly or indirectly, or could have such investments in the future, and therefore may have conflicting interests in connection with this investment.

Any of these situations subjects Pegasus to potential conflicts of interest. Pegasus attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Pegasus' advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, Pegasus will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, Pegasus consults and receives consent to conflicts from an advisory boards consisting of limited partners of the relevant Fund(s) and such other investment vehicles.

## **Item 9. Disciplinary Information**

There are no legal or disciplinary events required to be disclosed pursuant to this Item 9.

## **Item 10. Other Financial Industry Activities and Affiliations**

Pegasus is affiliated with other companies that provide investment management services (collectively the "Related Advisers"); however these companies are not registered as investment advisers with the United States Securities and Exchange Commission ("SEC"). Pegasus or Related Advisers will be responsible for all decisions regarding portfolio transactions of the Funds and have full discretion over the management of the Funds' investments and trading activities. While Related Advisers are not registered as investment advisers, all investment advisory activities are subject to the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the rules there under. In addition, employees and persons acting on behalf of the Related Advisers are subject to the supervision and control of Pegasus. Thus, the Related Advisers, and all the persons acting on their behalf would be "persons associated with" the registered investment adviser so that the SEC can enforce the requirements of the Advisers Act against the Related Advisers.

Potential conflicts of interest that may arise would likely relate to the allocation of investment opportunities between investment vehicles and/or the allocation of management's time to investment, administrative or other activities. The Governing Fund Documents for each of the Funds will provide a framework for avoiding and/or resolving these types of conflicts and provide the guidelines for establishing an advisory board, which consists of a certain number of Limited Partners for each of the Funds (the "Advisory Board") and is chaired by a Pegasus managing partner in a non-voting capacity. The functions of the Advisory Boards are outlined in each of the Fund's Governing Fund Documents. There are procedures in place at the General Partner level so that conflicts are resolved in an equitable manner.

Pegasus has offered a limited number of co-investments to Limited Partners. The primary rationale for offering these co-investment opportunities has been to complete transactions that have a need for capital greater than the Funds could provide. However, certain potential co-investors are also able to provide strategic value through expert knowledge of a particular sector or ancillary services



they can provide. These co-investment opportunities have been offered as interests in a limited partnership or other similar entity formed for each such investment (a “Co-Investment Entity”). The General Partners will allocate the available investment among the Funds, the Co-Investment Entity and any third parties in their sole discretion.

Operating Advisors, Strategic Advisors and consultants provide consulting services to a Fund and its portfolio companies, including, without limitation, industry or company specific research and advice, serving as directors and/or officers of Fund portfolio companies, and strategic and operational advice. These individuals are compensated by the Fund or the relevant Fund portfolio company. Such compensation generally takes the form of cash fees and equity grants relating to investments in Fund portfolio companies.

Pegasus’ principal owner, Mr. Cogut, has established Pegasus Capital LLC in connection with his personal investment activities. The investment activities of Pegasus Capital LLC, and the involvement of Mr. Cogut in these activities, could give rise to potential conflicts (or synergies) between the personal financial interests of the Mr. Cogut and the interests of Funds. From time to time, the entity invests in certain portfolio companies in which the Funds have invested. Additionally, Pegasus Capital LLC and its wholly-owned subsidiaries invest in companies which do not fall under the Funds’ investment parameters. For example, (a) Pegasus Capital LLC is one of the founding stakeholders of Impala Energy Holdings Ltd., a Cayman Islands exempted company, and our firm’s wholly-owned subsidiary provides consulting services to such operating company, and (b) ZeroBase Energy, LLC is owned and managed by a subsidiary of Pegasus Capital LLC. From time to time, Pegasus personnel, Operating Advisors and Strategic Advisors provide assistance with respect to Pegasus Capital LLC’s investments. Pegasus has adopted certain procedures designed to mitigate some of these potential conflicts, and the Funds’ governing documents typically require the consent of the advisory board (composed of Limited Partners) in relation to a conflict arising from a transaction involving Pegasus Capital LLC and the relevant Fund. The Funds do not compensate Pegasus personnel, Operating Advisors and Strategic Advisors for their services to Pegasus Capital LLC.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Pegasus has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act that is predicated on the principal that Pegasus owes a fiduciary duty to its clients. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners, employees or Operating Advisors of Pegasus, each employee’s spouse, minor children and other family members living in his or her household, as well as each other individuals designated in writing by the Chief Compliance Officer as being subject to all or a portion of the compliance procedures or policies adopted by Pegasus.

Generally, Pegasus prohibits personal trading on certain securities or instruments; requires pre-clearance before purchasing an IPO or limited offering (i.e., private placement); requires periodic reporting of employees’ personal securities transactions and all holdings; and requires prompt internal reporting of Code violations. Pegasus endeavors to maintain current and accurate records

of all personal securities accounts of its employees in an effort to monitor all such activity. Pegasus' Code of Ethics is available for review and will be provided to any client upon request.

Pegasus and its affiliated persons may come into possession, from time to time, of material non-public or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Pegasus and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Pegasus.

Accordingly, should Pegasus or any of its affiliated persons come into possession of material non-public or other confidential information with respect to public and non-public company, Pegasus generally would be prohibited from communicating such information to clients, and Pegasus will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Pegasus' personnel serving as directors of public companies and may restrict trading on behalf of clients, including a Fund.

Pegasus generally does not buy securities from or sell securities to its Funds. However, Pegasus may engage in these transactions in certain limited circumstances. These types of transactions are known as "principal transactions." This could potentially create a conflict of interest between Pegasus and its Funds. Pegasus and its employees are strictly forbidden from implementing any principal transaction without obtaining the Chief Compliance Officer's written pre-approval. In addition, the consent of the Funds' relevant Advisory Board is required before proceeding with a principal transaction.

Pegasus, its employees or a related entity will have an investment in each Fund. Therefore, Pegasus may be considered to participate indirectly in transactions effected for the Funds. In addition, Pegasus and its employees may, on rare occasions and in accordance with the requirements of the associated Governing Fund Documents, purchase an investment intended to be transferred to a Fund upon its formation, acting in the capacity similar to bridge financing. In addition, co-investment opportunities may be offered to Pegasus employees and Operating Advisors, Strategic Advisors or consultants.

The foregoing relationships, fees and any other actual or potential conflicts of interest arising therefrom are disclosed in the respective Governing Fund Documents.

## **Item 12. Brokerage Practices**

Pegasus primarily focuses on making investments in private securities. The vast majority of our positions are not acquired or disposed of through the public markets making use of brokers. Pegasus seeks to extend its best execution policy to the implementation of private investments, acquisitions and disposition of portfolio companies. Pegasus attempts to ensure that the Funds pay no more than the perceived fair value for portfolio companies or other investments as well as reasonable fees for services necessary to complete the transactions.

Pegasus recognizes that the analysis of execution and implementation quality involves a number of factors, both qualitative and quantitative. In implementing transactions for the Funds, Pegasus may take into account the full range of applicable factors when hiring third party service providers or other intermediaries for the purpose of completing those transactions. Factors include general expertise and background, the type and size of the transaction involved, the stability or solvency of the service provider or counterparty, settlement capabilities, time required to complete the role sought, research services or any arrangements relating to overall performance in the best interest of the Funds.

To the limited extent Pegasus instructs trades for Funds in public securities, it intends to select brokers based upon the broker's ability to provide best execution for the Funds. Pegasus is generally authorized to make the following determinations, subject to each Fund's investment objectives and restrictions, without obtaining prior consent from the relevant Funds or any of their Investors: (1) which securities or other instruments to buy or sell; (2) the total amount of securities or other instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

Pegasus does not utilize any soft dollar relationships with any broker.

Pegasus does not permit Investors to stipulate the direction of brokerage practices.

### **Item 13. Review of Accounts**

Pegasus focuses on making and advising on private equity investments. All investments are carefully reviewed and approved by Pegasus' Investment Committee. The progress of all portfolio companies is carefully monitored on a regular basis (at least monthly) and is subject to the constant supervision and review by Pegasus investment professionals.

Pegasus provides quarterly and annual reports, along with more detailed annual meeting presentations, to all Investors in accordance with the terms of the Governing Fund Documents. The quarterly package includes a summary review of financial information relating to Funds' activities; a summary review of investment activity of the Funds and a summary review of activities and developments with respect to each portfolio company, subject in all cases to applicable confidentiality and securities law restrictions. Pegasus also provides audited financial statements on an annual basis for each of the Funds to its Investors. Finally, Pegasus provides supplementary data or schedules to Investors that request such information in the context of financial, tax or governance issues that relate to their interests in the Funds.

### **Item 14. Client Referrals and Other Compensation**

Pegasus may charge portfolio companies and/or Investors origination fees, breakup fees, placement fees, consulting fees, monitoring fees and other similar fees. Pursuant to each of the Governing Fund Documents a percentage or all of certain fees that are received or paid by Pegasus may reduce the Management Fee otherwise payable by Investors to reduce potential conflicts of interest.

## **Item 15. Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks; however Pegasus has access to client accounts since it or an affiliate serves as the General Partner of each Fund. Investors (or limited partners or members or owners) will not receive statements from the custodian. Instead, the Funds are subject to an annual audit, and the audited financial statements are and will be distributed to each Investor (or limited partner or member or owner). The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of each Fund's fiscal year end. Investors should carefully review these statements, and should compare these statements to any account information provided by Pegasus.

## **Item 16. Investment Discretion**

In accordance with the terms and conditions of the Governing Fund Documents and subject to the direction and control of the General Partner of each of the Funds, Pegasus generally has discretionary authority to perform the day-to-day investment operations of the Funds.

## **Item 17. Voting Client Securities**

As an investment manager to the Funds that invest primarily in private companies that they control, Pegasus is rarely, if ever, required to vote the proxies of public or private corporations or other such entities. Most of the portfolio companies held by the Funds are private companies, which typically do not issue proxy statements. However, in the event proxies have to be voted, Pegasus has adopted and implemented written policies and procedures governing the voting activities on behalf of its Funds in accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act. Its proxy voting activities are conducted in a manner consistent, under all circumstances, with the best interest of the Funds' Investors and consistent with the decisions made at the board of the company or any committees of the board. All proxies that Pegasus receives will be treated in accordance with these policies and procedures; and a copy of Pegasus' written proxy voting policies and procedures, as well as specific information about how Pegasus has voted in the past, will be provided to Fund Investors upon written request to Pegasus. As a general matter, Pegasus does not share information concerning how proxies are voted with Investors, unless the matter to which the proxy relates involves a contest or other extraordinary corporate matter.

## **Item 18. Financial Information**

Pegasus has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.